

ORIGINAL



BEFORE THE ARIZONA CORPORATION C

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Jeff Hatch-Miller
Chairman
William A. Mundell
Commissioner
Marc Spitzer
Commissioner
Mike Gleason
Commissioner
Kristin Mayes
Commissioner

IN THE MATTER OF QUEST CORPORATION'S)
FILING AMENDED RENEWED PRICE) DOCKET NO. T-01051B-03-0454
REGULATION PLAN)
_____)
IN THE MATTER OF THE INVESTIGATION)
OF THE COST OF TELECOMMUNICATIONS) DOCKET NO. T-00000D-00-0672
ACCESS)
_____)

NOTICE OF FILING TESTIMONY

Pursuant to the procedural order issued on August 26, 2005 the ARIZONA CONSUMERS COUNCIL (ACC) hereby submits testimony of Albert Sterman in opposition to the proposed Settlement Agreement.

Respectfully submitted the 15th day of October, 2005


Albert Sterman, Vice President

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Copies of the foregoing mailed to
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October 15, 2005.

SETTLEMENT TESTIMONY OF ALBERT STERMAN

INTRODUCTION, QUALIFICATIONS AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND ADDRESS

A. My name is Albert Sterman. I reside at 2849 E. 8th Street Tucson, Arizona 85716

Q. ON WHOS BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING.

A. I am testifying on behalf of the Arizona Consumers Council, an intervener in this proceeding.

Q. What is the Arizona Consumers Council?

A. The Arizona Consumers Council is a voluntary non-for-profit state-wide educational, research and advocacy organization representing consumers in the state of Arizona.

Q. WHAT ARE YOUR QUALIFICATIONS FOR TESTIFYING IN THIS PROCEEDING?

A. As Vice President of the Council and chair of its utilities committee as well as participation in several national organizations, I have been involved in utility regulation/deregulation for the last 20 years. I have testified before this commission in telephone, electric and gas issues. I was chair of the communications sub-committee of the Consumer Federation of America's policy committee and on the Board of Electric Consumers Alliance, a national body involved in electric deregulation.

Q. ARE YOU TESTIFYING AS AN EXPERT WITNESS?

A. No. I am testifying as a consumer of telecommunications trying to bring the public perspective into these proceedings.

Q. HAVE YOU FILED TESTIMONY OR OTHERWISE BEEN INVOLVED IN THIS DOCKET?

A. Neither I nor the Council has previously filed testimony in this docket, but I have read most of the filings that have been published.

Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. I am testifying in opposition to the settlement agreement that has been proposed as the renewed price regulation plan for Qwest Corporation.

Q. IS THE ARIZONA CONSUMERS COUNCIL A SIGNATORY TO THE SETTLEMENT AGREEMENT?

A. The Council is not a signatory to the settlement agreement.

II. SETTLEMENT AGREEMENT ISSUES

Q. PLEASE DESCRIBE THE MAJOR ISSUES OF THE SETTLEMENT AGREEMENT

A. The renewed Price Cap Plan continues in general the original price cap plan and gives Qwest the ability to increase its overall revenues by \$43.8 million in what is called the

competitive market. This revenue increase was arrived at partially because of Qwest's loss of lines to what is termed the competitive market; that is, other hard wired telecommunication services, wireless providers and internet providers of telephone services. In addition the baskets developed in the original price cap plan were changed somewhat to allow for Qwest to raise revenue from these services. These revenue increases were developed to take into account not only the loss of lines but because of the changes in the switched access charges which were lessened to reflect more to cost of this service to the carriers of long distance and other services. The settlement agreement also calls for changes in single lines in non urban areas which now carry a premium charge.

Q. WHAT DO YOU THINK WILL BE THE IMPACT UPON RESIDENTIAL AND SMALL BUSINESS CONSUMERS AS A RESULT OF CHANGES IN SWITCHED ACCESS?

A. Residential and small business consumers will see very little if any benefits from changes in switched access. The major benefits will go to the interconnection carriers of long distance who will see a drop in charges for utilizing Qwest's network to complete or send out calls. Unless consumers develop their own long distance provider or utilize a by-pass system there will be no change in their long-distance service. All savings will go into the coffers of the long-distance carriers.

Q. WHAT DO YOU THINK WILL BE THE EFFECT OF THE CHANGES IN NON-RURAL TELEPHONE CHARGES?

A. Consumers in these areas will see a lowering of their telephone service. It will be of some significant help to low income rural customers but will not offset the increased charges for ancillary service such as call forwarding, call waiting and the other myriad services in basket 3. Only if rural customers who are low income only take basket one services will they see any lessening of their rates.

Q. WHAT IS YOUR VIEW OF PLACING SO CALLED COMPETITIVE SERVICES IN BASKET 3 AND ALLOWING QWEST TO DEVELOP DIFFERENT PRICING SYSTEMS FOR THESE SERVICES.

A. I am not convinced that most services in basket three are truly competitive services. With the exception of information services, possibly caller ID, and answering services, no other services can be purchased from any carrier but Qwest or other carrier for local services. In other words you must first purchase local service from Qwest or other available carrier before you can purchase these ancillary services. You cannot purchase these ancillary services from other vendors but must purchase them from your provider of local services if one exists other than Qwest; at least I have never had the opportunity to purchase such services from anyone but my local carrier. I do not see these services as truly competitive unless they are available as wanted from a variety of vendors.

Q. WHAT ARE THE ISSUES AND POTENTIAL PROBLEMS OF CONTINUING THE AMENDED PRICE CAP PLAN IN THE SETTLEMENT AGREEMENT?

A. There are several potential issues and problems continuing this price cap plan.

1. Qwest was allowed to get into the long-distance and other competitive markets because the FCC felt that they and the market had met conditions set forth in the alternative procedures for competition; that is, a number of vendors had applied for and received CN&N's allowing them to sell into the local market. At that time few if any vendors were in fact selling to the residential market and in fact with the exception of Cox Communications, I see no effort for others to reach the residential market. Two suppliers do not

make for a competitive market. I call two sellers in a market oligarchy, as competition is defined as many sellers, selling to many buyers.

2. Qwest has argued that competition does exist and that there are alternatives to local hard-wire services which were served only by Qwest in its service area and that the fact that they have lost lines in the last three years proves that there is competition in the residential market. I question the accuracy of the statements. The loss of lines may be an indication of some competition in the market. The information concerning loss of lines does not say which lines and identify the category of the loss or even why individuals left Qwest's network. Qwest has also argued that there are alternatives to their network from wireless, VoIP and other new technologies. While these new technologies may be a threat to Qwest's network in the future, there is little indication that except for a few who are imbued with new technology there is a significant migration to these new technologies. Each is more expensive and requires significant outlays to use those markets. We have no reliable information concerning the impact of these technologies on the residential market.
3. The creation of the baskets as selling competitive products and services in and of itself poses little problem. What poses a significant problem is the direction that the settlement agreement takes and its eventual impact on residential consumers. When Qwest initially petitioned to enter the competitive long distance market it was denied because there was no effective competition. The entrance of Cox Communications made for two competitors. This was not considered as true competition and Qwest had to wait to go to an alternative route which was eventually approved by the FCC and the ACC.

Competition if working properly means many suppliers and many purchasers. To date in the residential market there appears to be few suppliers except for Qwest and Cox in the urban areas and only Qwest and independent incumbents in the rural areas of Arizona. Businesses offering new technologies appear to be concentrated in the urban areas and are selling services to high end consumers who can afford the new technologies and the high cost of service. While cell phones are on the rise there appears to be little migration away from hard wire lines and to only cell phones.

One of the major reasons that Qwest pushed for some deregulation was the desire to get into markets closed to a monopolist telecom carrier, i.e. an ILEC. Their argument was that they were going to lose revenue and need to get into the competitive arena. That was granted. Over the last several years Qwest has complained that they have lost revenue from the loss of hardwire lines. While this may be accurate the flip side of the equation has been ignored. What little competition has been achieved and has resulted in the loss of revenue, what has not been discussed is the gain in revenue from other lines of business that Qwest has gotten into. By segmenting the company's income artificially into regulated and non-regulated revenue and claiming loss in regulated revenue, while not taking into consideration other revenue/income, we have started to go down a slippery slope. If this trend continues as is projected by many analysts, the wire-line, voice will be left standing without sufficient revenue to accommodate those remaining on the system and rates for POTS will need to be increased to the point that will be unaffordable to its customers without huge subsidies from outside sources.

For the above reasons the Arizona Consumers Council requests that the Arizona Corporation Commission reject the settlement agreement.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.